



A new star in the galaxy of Nabisco Brands products: Better Cheddars, a real cheddar cheese cracker, was introduced in 1985.



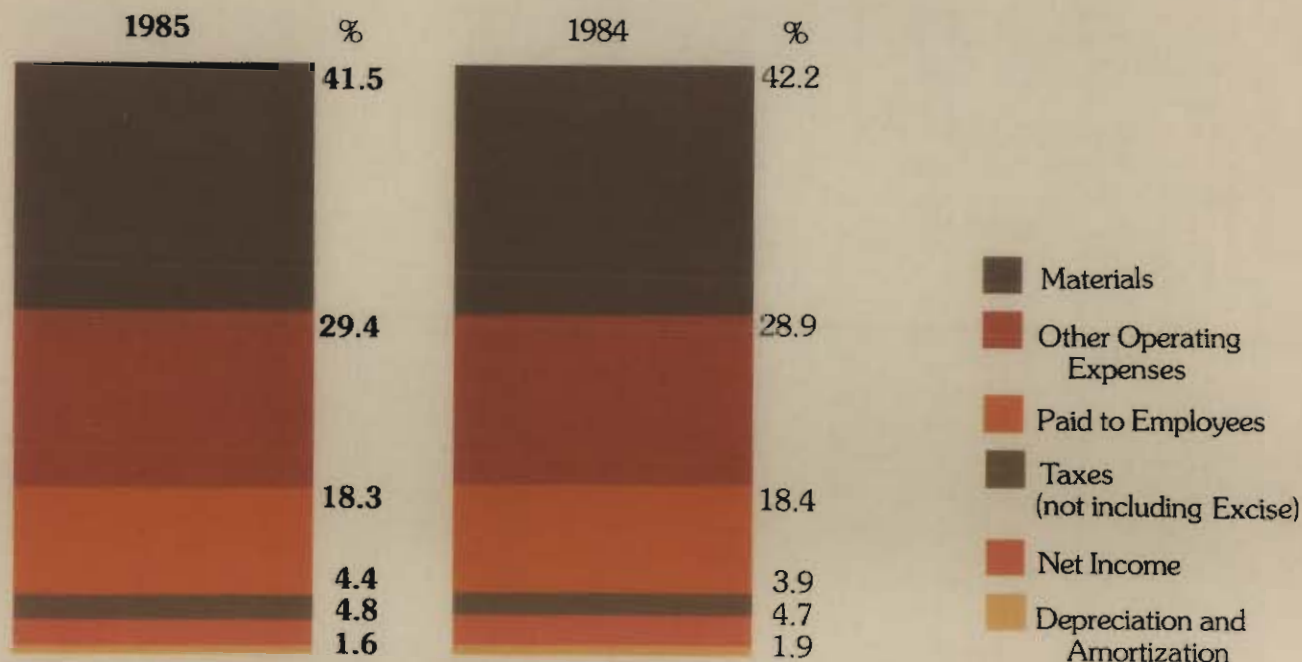
Financial Highlights

UNION GAS LIMITED
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FINANCIAL HIGHLIGHTS (in thousands of dollars)	1985	1984	1983	1982	1981
Net Sales	\$957,862	\$938,487	\$907,213	\$786,043	\$735,349
Net Income	45,585	44,560	42,800	37,950	37,036
Working Capital	190,727	169,929	176,623	200,183	181,795
Capital Investment	21,894	21,146	24,823	20,606	15,974
Shareholders' Equity	307,626	278,041	279,481	276,744	243,402
Total Assets	\$513,290	\$483,059	\$481,326	\$442,429	\$404,249
Total Debt	\$ 52,622	\$ 56,092	\$ 59,469	\$ 60,051	\$ 60,969
PER CAPITA SALES	\$ 38.15	\$ 37.38	\$ 36.33	\$ 32.35	\$ 32.07

ANALYSIS OF REVENUE DOLLAR



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COMPANY PROFILE: Nabisco Brands Ltd is one of Canada's leading food and beverage manufacturers, with annual sales of more than \$950 million.

The company's origins date back to 1853 and the founding of Christie, Brown and Company, a maker of baked goods.

Today, with 29 plants and more than 6,000 employees, Nabisco Brands Ltd manufactures and markets cereals, crackers, cookies, candy bars, chocolates, coffees, wines and spirits, baking ingredients, and pet foods, under brand names that are household words across Canada.

Nabisco Brands Ltd is a Canadian company whose shares are listed on the Toronto and Montreal stock exchanges. Eighty per cent of the company's shares are owned by R. J. Reynolds Industries, Inc., of Winston-Salem, North Carolina.

Throughout this Report, trade names, trademarks, or brand names owned by or associated with Nabisco Brands Ltd and its subsidiaries are shown in *italics*, except in captions..

For additional copies of this Report, write to:
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Canada M5G 2A9

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Affaires générales
Nabisco Brands Ltée
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Toronto, Ontario
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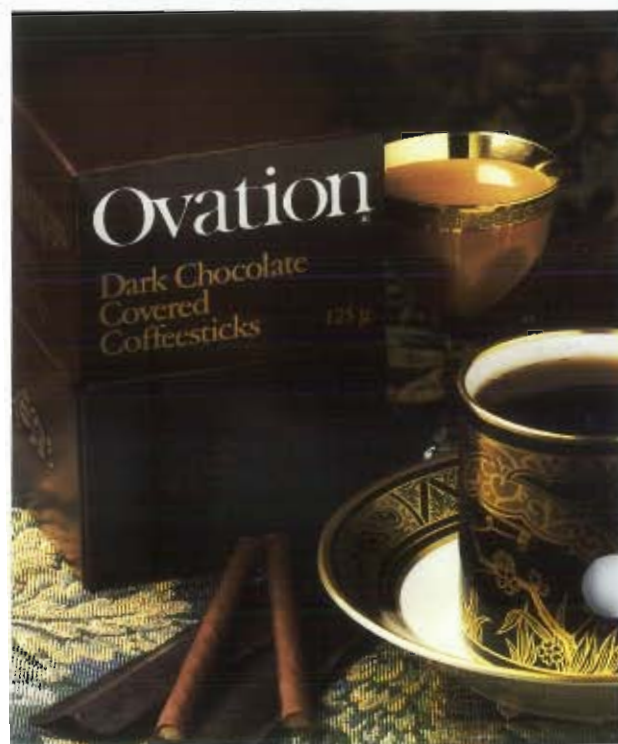


Another tasty variation is added to the popular Shreddies family - Honey Nut Shreddies.

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Established brands are the heritage of Nabisco Brands; new brands nourish and sustain the Nabisco Brands tradition. During 1985, Nabisco Brands Ltd introduced 29 new products and line extensions. From the exciting *Chippoppitty* – “the product that doesn’t know if it’s a cookie or a candy,” to *Better Cheddars* – a worthy accompaniment to the venerable 50-year-old *Ritz* crackers, Nabisco Brands tracked the changing tastes of consumers and found new and innovative ways to satisfy them. Each new product, each line extension, is the result of acute sensitivity to opportunities in the marketplace, diligent research, painstaking development, and finally an entertaining and appealing presentation. Many Nabisco Brands products have been the favourites of Canadians for generations. Each year’s new products are the chorus line from which consumers choose their new favourites.

This is their debut.





Nineteen-eighty-five was a year of considerable change and accomplishment for Nabisco Brands Ltd.

It was our first full year as a publicly-owned company, which makes me especially pleased to report that sales rose to a record \$957.9 million from \$938.5 million, while net income also set a record, climbing to \$45.6 million from \$44.6 million. The equivalent in earnings per share was \$2.28 in 1985, up from \$2.23 in 1984.

Also during 1985, your Company:

- became part of the second largest consumer products organization in the world when our majority shareholder, Nabisco Brands, Inc. of East Hanover, New Jersey, merged with R. J. Reynolds Industries, Inc. of Winston-Salem, North Carolina.
- made a number of important changes aimed at increased efficiency, most notably by planning for the January 1, 1986 merger of our wholly owned subsidiary Associated Biscuits of Canada Ltd. with Christie Brown & Co., the oldest member of the Nabisco Brands family of companies.

But perhaps most important of all, our established brands continued to reinforce their leadership positions in their respective markets, while many new products and line extensions won enthusiastic responses from consumers.

The new shape and size of our largest shareholder, R. J. Reynolds Industries, Inc., will have very positive effects for Nabisco Brands Ltd in Canada.

Not the least advantage flows from the fact that Nabisco Brands Ltd is now part of an even larger international corporate network from which we can draw research, technology, marketing and other skills.

Within Nabisco Brands Ltd, the combination of Christie Brown & Co. and Associated Biscuits will further enhance our leadership in the biscuit and cracker markets. The new division retains the Christie Brown name.

One of the primary motives for joining the two divisions was to bring the four Associated Biscuits brands—*Peek Freans*, *Dad's*, *David* and *Harnois*—under the umbrella of Christie Brown's highly efficient direct-to-store delivery system. We are confident that the talent and dedication of the employees of both Christie Brown and the former Associated Biscuits will make the combined operation greater than the sum of its parts.

It was an historic year in yet another respect for Christie Brown & Co. and for Nabisco Brands Ltd. It was 50 years ago, on June 10, 1935, that Christie Brown first introduced *Ritz* Crackers. *Ritz* quickly became Canada's, as well as the world's, favourite cracker, a distinction that remains unchallenged.

The continued popularity of *Ritz* Crackers underscores an important strength of Nabisco Brands Ltd. Many of our products have been Canadian favourites for generations. *Oreo* cookies, *Nabisco Shredded Wheat*, *Planters* Nuts, *Dr. Ballard's* pet food, *Fleischmann's* margarine, *Life Savers* candy—all of these have long been leaders in their markets.

The inherent quality, good taste and value that these products represent mean that Nabisco Brands is able to build upon the respect they are accorded as we did in 1985 when we introduced *Honey Nut Shreddies* as the third member of the immensely popular *Shreddies* family, and when we developed *Chewy Chips Ahoy!* to take its place beside *Chips Ahoy!*, Canada's largest selling chocolate chip cookie.

The importance of our established brands is underlined by the fact that approximately 75 per cent of our sales revenue comes from those categories in which our brands occupy the first or second market share position. Moreover, the reputation of these brands for quality and excellence brings a higher recognition for the new products we introduce.



THE OFFICE
OF THE
CHAIRMAN

(Seated)

John R. MacDonald
*Chairman of the
Board and
Chief Executive
Officer*

(Standing
left to right)

David S.R. Leighton
Vice Chairman

Martin F.C. Emmett
Vice Chairman

Fred Corrado
*President and
Chief Operating
Officer*

In this, a most essential aspect of our business, 1985 was a particularly busy year as we brought to market 29 new products and line extensions. These introductions support Nabisco Brands' leadership and coverage of the food and beverage markets as well as set the stage for future growth.

The 10 per cent federal sales tax exemption on confectionery and pet food products was withdrawn July 1, 1985. We do not favour this tax, not only because it inevitably puts upward pressure on prices, but also because we believe it imposes an indiscriminate burden on all consumers. We have made our views known to the federal government, both directly and through trade associations.

Nabisco Brands Ltd wants to play a complete role in the communities it serves. We support foundations that work toward solutions to medical problems, funding university scholarships and assisting in areas as diverse as physical fitness and cultural enterprises. Our employees are involved too. Through the Nabisco Matching Gifts to Education program, an employee's donation to a school, college or university is doubled by Nabisco Brands Ltd.

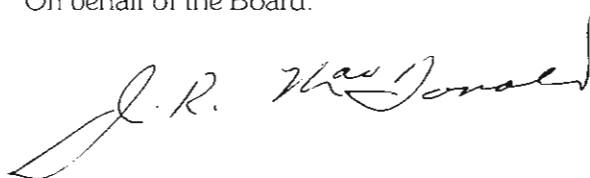
Productivity and efficiency also form a major part of Nabisco Brands Ltd corporate strategy. In 1985, we exercised tight expense control. We searched carefully and diligently to reduce duplication across the country in every division. Consolidation that began in 1984 enabled us to realize savings in labour costs and reduce fixed expenses. Our strategy also meant lower raw material and packaging costs. The net result in 1985 was lower per unit cost and higher production volumes. We anticipate this tight expense control will continue to have positive effects in 1986 and annual rewards thereafter.

Nabisco Brands Ltd has clearly defined goals for 1986. We intend to draw on our vast resources and network of products, pulling them all together to meet the needs and

demands of Canadian consumers. We want each one of our vast line of products to be identified first and foremost with the Nabisco Brands name. Whether you reach for *Dad's Cookies* or *Planter's Nuts*, you'll know that they are part of the proud Nabisco family. We have the resources and the quality, our goal is to bring our family together to be the best in 1986.

It is the commitment of Nabisco Brands Ltd to continue to serve its customers and its shareholders to the best of its ability. In that endeavour we must rely in great part, as we have in the past, on the dedication of our more than 6,000 valued employees.

On behalf of the Board:



J. R. MacDonald
Chairman of the Board and
Chief Executive Officer

EXECUTIVE APPOINTMENTS

We are pleased to welcome to the Board of Directors of Nabisco Brands Ltd Robert J. Carbonell, Robert A. Fox, and W. Earle McLaughlin.

Mr. Carbonell and Mr. Fox are vice chairmen of Nabisco Brands, Inc. of East Hanover, New Jersey. Mr. McLaughlin is former Chairman of the Board of The Royal Bank of Canada.



With the joining of Nabisco's two biscuit divisions, Christie Brown & Co. has entered a new stage of growth and a higher plateau of customer service.

The combination extends the Christie Brown direct-to-store delivery system to remove the distinctive brand's period of *Dad's*, *David*, *Peek Freans* and *Harnois*—products marketed by what was known, until January 1, 1986, as Associated Biscuits of Canada Ltd.

During 1985, Christie Brown entrenched its market position through sales of *Oreo* and *Chips Ahoy!*...two of the most recognizable brands in the Canadian cookie market.

The *Chips Ahoy!* line was expanded to include a new *Chewy Chips Ahoy!* in Ontario and Western Canada.

Apple Newtons, a soft cookie, and *Funilla*, the latter a vanilla sandwich cookie, made their debut to a receptive national audience.

Below: Nabisco Brands made its mark in the "soft cookie" market with Mr. Christie's Crisp'N Chewy.

Right: "Mr. Christie, you make good cookies." The tradition established by Canada's two largest selling cookies, Oreo and Chips Ahoy!, is carried on by newcomer Funilla.





Peek Freans further increased its volume of exports to the United States, where its tradition of quality has attracted the attention of a growing number of consumers.

Anchored by the instant recognition of the venerable *Dad's* Oatmeal Cookies, the *Dad's* franchise has been expanded through *Dad's* Chunky Chocolate Chip and *Dad's* Oatmeal Chocolate Chip Cookies.

The *David* line, so well known in Quebec, was repositioned with attractive new packaging and the introduction of a new *Chunks o' Chocolate* Chocolate Chip Cookie.

Consummation of the Christie Brown-Associated Biscuits marriage not only provides better service to retailers and consumers, but also provides even greater opportunities to expand our role in the marketplace in the years to come.



Cookie lines David, Dad's, and Peek Freans have joined Christie Brown's special direct-to-store delivery system.



What a selection!
Premium Plus, an
enduring favourite;
Old Fashioned,
high in fibre;
Calais, light wheat
germ and bran.

New *Better Cheddars* is a real cheddar cheese cracker with a taste and texture that immediately won a place on the tables of many Canadian consumers.

Convenient sizing contributed to the success of *Better Cheddars*, as it did to two other successful new entries—a high-fibre *Old Fashioned* cracker, and *Calais*, a light wheat germ and bran cracker.

Our complete line of snacking crackers was relaunched with brighter, bolder packaging as, for the first time, the Christie Cracker Centre with its eye-catching displays became a feature in Canadian supermarkets.



Now 50 years young, and still Canada's number one—Ritz Crackers. And at left, a snack for every taste.





The Foods Division embraces the manufacturing and marketing of cereals, grocery products and pet foods. For the Foods Division, 1985 was marked by heightened competition in all areas. Strength in established brands and the introduction of new products enabled this division to meet the competition head-on.

Shreddies, *Shredded Wheat* and *100% Bran* are not only the core cereals for Nabisco Brands Ltd, they are also a popular way for thousands of Canadians to start their day.

The strong share gains for *100% Bran* showed once again the consumer's growing preference for high-fibre foods. The enviable *Shreddies* franchise was expanded by the growing success of *Shreddies & Raisins*, which was introduced in 1984, and with the more recent launch of new Honey Nut *Shreddies*. These two brands helped the *Shreddies*



family of cereals to surpass the preceding year's record volume.

Nabisco, the second largest cereal manufacturer in Canada, continues to serve its breakfast audience with a menu of nutrition, taste and convenience.



Hot and cold – Nabisco cereals make a convenient and nutritious start to the day.

Fleischmann's margarines continued to be the favourite choice of health conscious Canadian consumers in 1985. The growing concern for sensible eating habits augurs well for future growth in sales of the premium *Fleischmann* products as well as the popular *Blue Bonnet* brand.

The line of *Chipits* chocolate products significantly increased its market share; *Chipits* Baking Chips remained the leader in its field; *Chipits* Baking Squares, accompanied by a new unsweetened variety, became an outstanding success following its launch in 1984. The introduction of *Chipits* 100% Pure Cocoa met a promising response in this third category of chocolate product.

Two new products, *Royal* Lemon Meringue and Chocolate Mint No Bake Pie Mixes joined our *Royal* puddings and *Royal* jelly powders line of desserts.

Right: Healthier eating habits bring customers to Fleischmann's, the premium margarine.

Opposite: Quality in the kitchen is assured by Nabisco Brands' array of baking aids and ingredients.





In 1985 Nabisco Brands maintained its position as Canada's largest marketer of canned pet foods and pet snacks.

Miss Mew, with a new economy size and a recloseable lid, was the number one Luxury Cat Food.

A new product and a special treat for dogs was the Jumbo sized *Milk-Bone* biscuits.

Dr. Ballard's for dogs and *Miss Mew* for cats are the only national brands in Canada certified as nutritionally complete by the Canadian Veterinary Medical Association.

Our regional pet food business, which includes such local favourites as *Romar*, *Alpo*, *Tops* and *Perky*, was strengthened with the addition of a beef and vegetable flavour to the Husky line.

With its *Blue Mountain* brand cat and dog foods, the Hervin Company, our United States subsidiary located in Oregon, continued to be the leading producer of canned pet foods in the northwest United States.

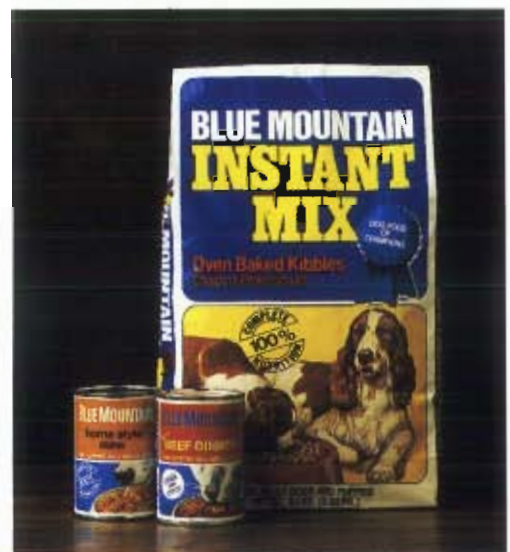


Milk Bone, one of dog's best friends.

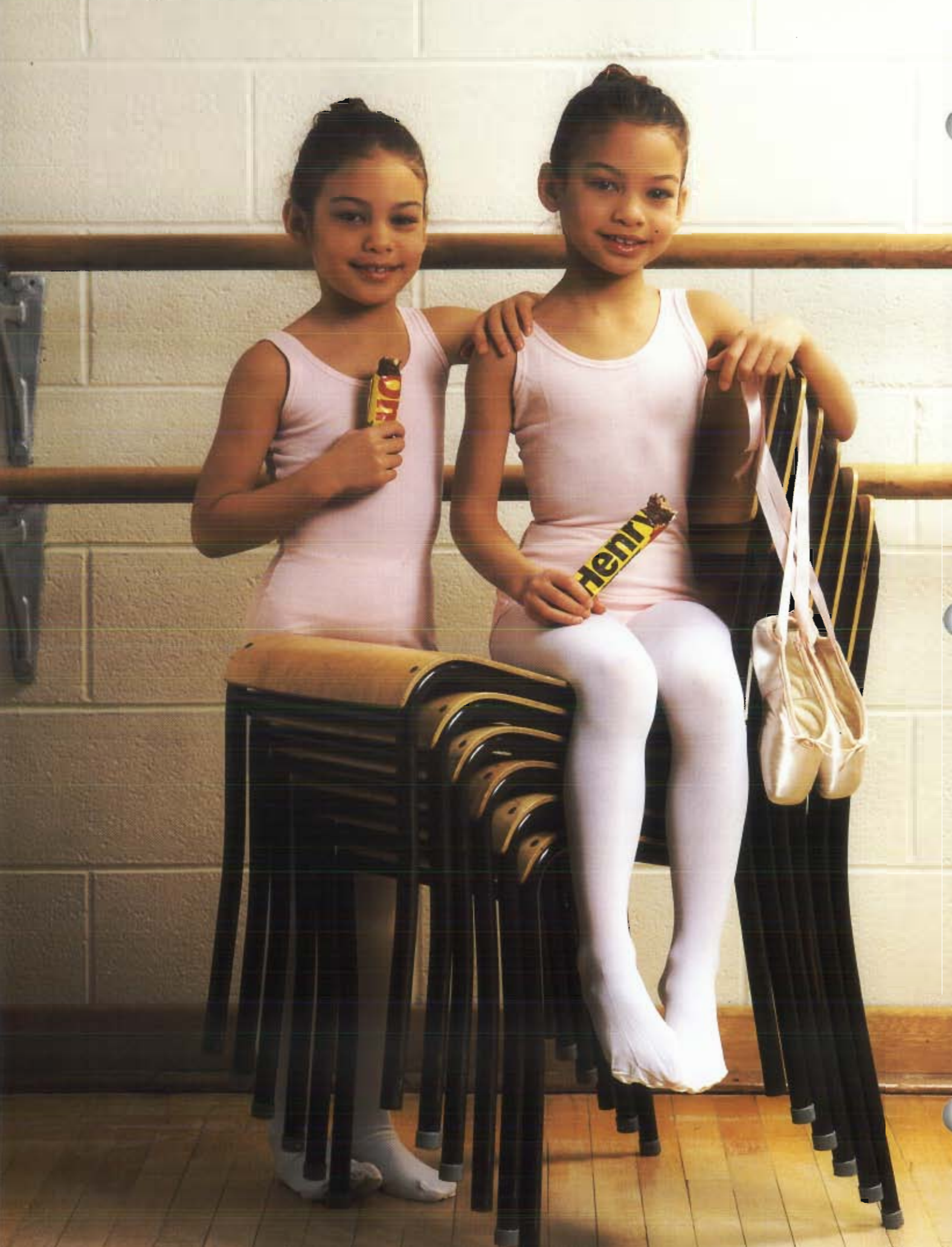
Miss Mew, the luxury food that makes felines purr.

Blue Mountain brand, from Hervin Company, is tops in northeastern United States.

Opposite: Dogs can tell! Dr. Ballard's is still their favourite.







New flavours, new products, innovative packaging and promotion, and above all an unyielding commitment to quality, helped the full-line Confectionery Division to set new standards in 1985.

Our boxed chocolate business successfully anticipated changing consumer trends in 1985.

Building on the strength of our unique after dinner chocolate, new Coffee Flavoured Ovation Sticks were introduced nationally. An attractive pre-pack merchandising unit drew attention to a new, elegant line of casual gift chocolates called the Moirs Collection.

Almondillos, Lowney Cherries and Selection Packages were all given new presentations to meet the consumer's growing responsiveness to appealing packaging.

In 1985, the Confectionery Division joined forces with Christie Brown to produce *Chippoppitty*, an exciting new product which combines the crunchy goodness of chocolate chip cookies with the convenience of a candy bar.



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*To celebrate, or just
for after dinner –
Moirs chocolates
make the occasion.*

It was an outstanding year for candy bars: A new size-enhanced *Oh Henry!* translated into a record share of market for this, our flagship brand. *Glosettes* and *Junior Mints* marketing campaigns sustained brisk sales.

Life Savers continued to dominate the hard roll candy market with the addition of new *Bubble Gum* and *Island Fruits* flavours. We relaunched *Care*Free* sugarless gum with



Nutra-Sweet brand sweetener, and added Watermelon flavour to our *Bonkers Chewy Candy*.

Also in the chewing gum category, we unveiled *Bubble Yum Wacky Fruit*. The new

Splitz gum has a flavour wrapped in a flavour, thanks to a new extrusion process developed at our Amherst plant.



Planters is the number one snacking nut in Canada. This acknowledged leadership in quality and innovation was enhanced with the successful introduction of Honey Roasted Peanuts, in both dry roasted and oil roasted varieties. A heightened awareness of *Planters* products came from improved in-store merchandising support and from major promotional events.

Pine Tree and *Beaver*, our two regional nut brands, helped to give us an all-round presence in the Canadian snack market.

Beaver and *Pine Tree* are Nabisco's two regional nut brands. Countrywide, the number one snacking nut is *Planters*.





New products and marketing innovations helped the Wines & Spirits Division to achieve higher volumes in 1985.

A more open promotion milieu, which included in-store displays, emphasized the attractiveness of the brands of distilled spirits manufactured and marketed by McGuinness Distillers Limited.

There was a gratifying response for the new Premium *Silk Tassel Deluxe* whisky, introduced in Ontario early in the year. With continued strong performances from *Old Canada*

and *Gold Tassel*, McGuinness improved its position in the Canadian whisky segment of the market.

Polar Ice Vodka was the most successful product launch ever conducted by the Wines & Spirits Division. A strong promotion program effectively captured the consumer's interest in a vodka especially developed to be served straight from the freezer.

D'Eaubonne Brandy, reformulated and dressed in a new package, became Canada's best-selling brandy.



Silk Tassel, one of three Canadian Whisky brands manufactured by McGuinness Distillers.

McGuinness also markets a selection of beers, wines and spirits from around the world.



The introduction of *Kemper's* Peppermint Schnapps reinforced our reputation as a leading marketer of liqueurs.

Our agency operation, which imports a selected line of beers, spirits and wines, experienced excellent growth in 1985 from sales of *Blue Nun*, *Senator's* Rheinwein, *Cuervo* Tequila, *Usher's* Scotch and *Glenmorangie* Single Highland Malt Scotch Whisky.

Calona Wines Limited held its position in a highly competitive wine market with the introduction of "Blush," the beautiful wine from

Spring Hill Vineyards. This moderately dry wine is a white wine that derives its "blush" hue from the skins of red grapes.

Schloss Laderheim Light White Wine won broader consumer acceptance as its distribution was expanded to all markets served by Calona.

Chillers, a low alcohol wine and soda "cooler," justified expectations in British Columbia and this year is being distributed in other Calona markets.



Left: Liqueurs to suit the widest range of tastes.

Above: Chillers, a wine-and-soda "cooler" earned its way to expanded markets.

Below: Schloss Laderheim, a continuing favourite of Canadian wine lovers.



Winemasters
Selection: premium
varietal wines from
the Okanagan Valley.

Through its Industrial Products Division, Nabisco Brands Ltd serves the growing away-from-home market, household and commercial bakers, and its own biscuit and food divisions as well as other food processors in Ontario and Quebec.

In 1985, the three regional coffee companies of the Food Service division – Club Coffee Companies of Toronto, Melrose Foods Company of Winnipeg, and Dickson's Food Services Ltd. of Vancouver – continued to increase their market shares.

The introduction of new specialized coffee blends such as 100% Colombian and Supremo Espresso, along with the integration of newly-acquired Anthos Coffee Company Limited of Toronto into Club Coffee, widened Nabisco Brands industry-leading selection.



For the away-from-home market: coffees and after-meal treats.

National distribution of Nabisco branded products to our foodservice customers was expanded to include *Peek Frean's* and *Dad's* cookies. These additions made even more formidable the number and diversity of products available to foodservice establishments, a line which already included *Premium Plus* crackers, *Oreo* cookies, *Fleischmann's* margarines, *Shreddies* cereal, and *Chase & Sanborn* coffee.

Reid Milling, which produces blends of soft wheat flour for other Nabisco Brands divisions and many other food processors, operated at capacity in 1985 and maintained its position as Canada's largest miller of soft wheat.

Reid's success in Canada and in export markets was helped by improved efficiencies, including the installation of a new bagging and bulk system for cereal bran.





Foodservice establishments choose from a diversified and growing number of Nabisco Brands products.



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Consumer response to the new *Fleischmann Quick-Rise* Instant yeast further testified to the 110-year-old Fleischmann Company's tradition of bringing freshness and convenience to the baking process.

With *Quick-Rise*, Fleischmann brought to the consumer a fast-acting type of yeast previously used only by commercial bakeries. The success of this yeast, which can cut baking time in half, may be measured by the fact that in 1985 more than 26,000 people requested the specially-compiled "Fleischmann's Quick-Rise Recipe Collection."

The Fleischmann Company, whose yeast is used by more professional bakers than any other, now markets three blends of dry yeast for home bakers who insist on quality and fresh-baked taste—*Quick Rise* Instant, *Fleischmann's Fast Rising*, and *Fleischmann's Rapidmix*.



John R. MacDonald
*Chairman of the Board and
Chief Executive Officer*

Fred Corrado
*President and
Chief Operating Officer*

Martin F.C. Emmett
Vice Chairman

David S.R. Leighton
Vice Chairman

John C. Doran
*Senior Vice President,
Finance*

Richard D. Innes
*Senior Vice President, and
President, Foods Division*

Edwin J. Korhonen
*Senior Vice President, and
President, Industrial Products Division*

John B. McCrae
*Senior Vice President, and
Chairman, Christie Brown & Co.*

Bruce J. Wood
*Vice President, and
President, Confectionery Division*

Peter A.K. Wood
*Senior Vice President, and
President, Wines & Spirits Division*

Ronald A. Adlam
*Vice President,
Planning*

Simon Gulden
*Vice President, General Counsel
and Corporate Secretary*

Brian C. Koenig
*Vice President,
Personnel*

M. Robert Langille
Vice President and Comptroller

Emerson A. Mascoli
*Vice President,
Corporate Affairs*

Frederick C.Z. Silk
Vice President and Treasurer

Divisional Operations

CHRISTIE BROWN & CO.

John B. McCrae
Chairman
Raymond J. Verdon
President

CONFECTIONERY

Bruce J. Wood
President

FOODS

Richard D. Innes
President

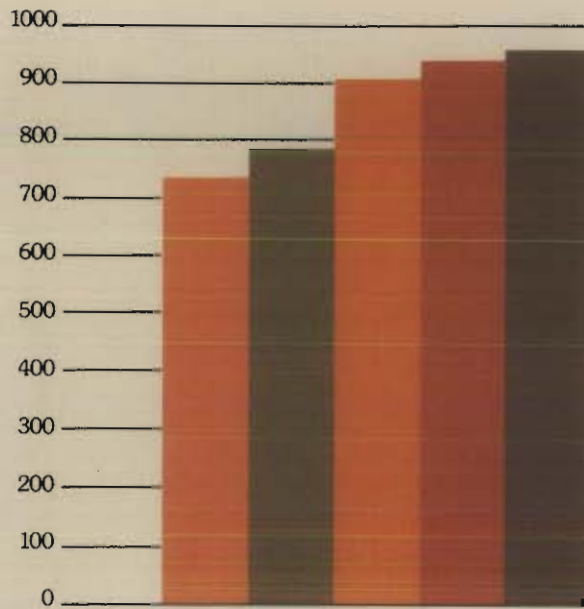
INDUSTRIAL PRODUCTS

Edwin J. Korhonen
President

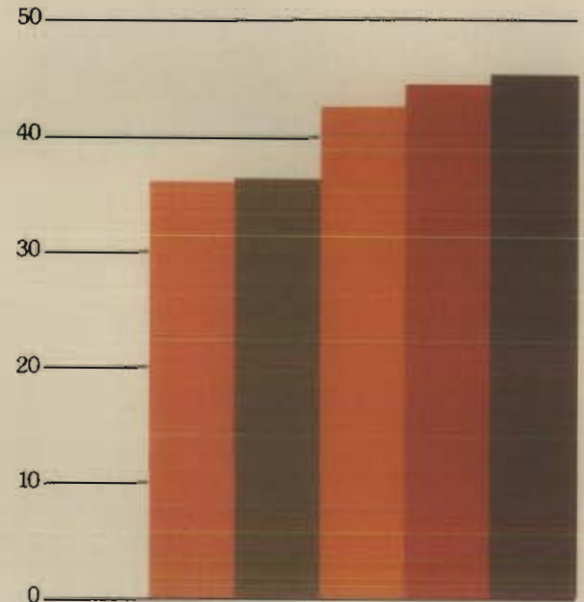
WINES & SPIRITS

Peter A.K. Wood
President

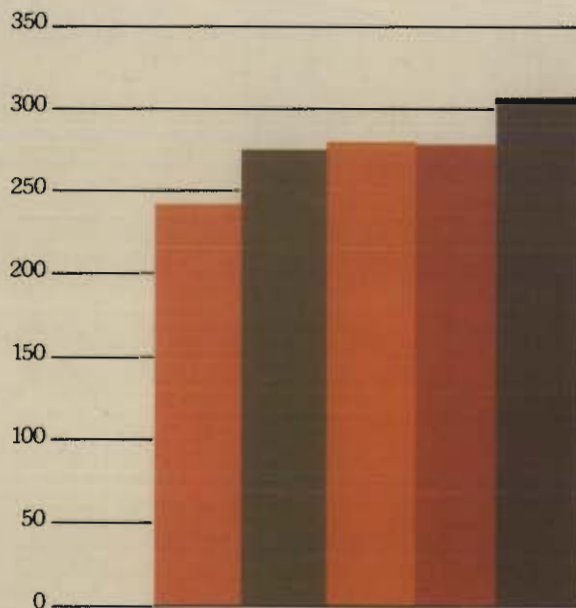
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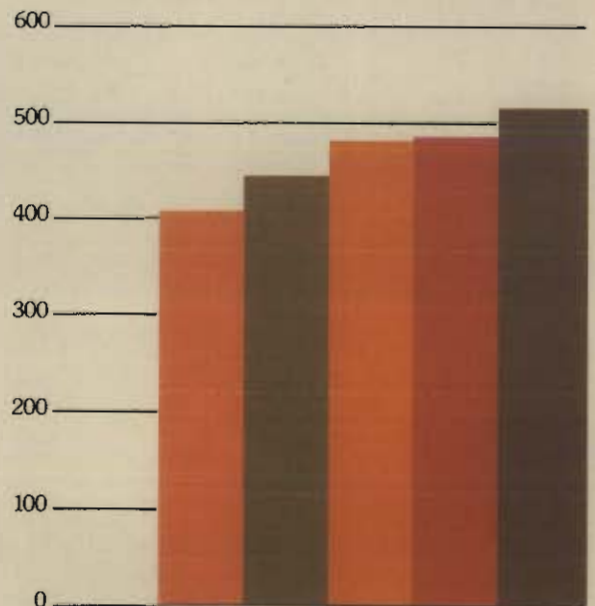
NET SALES
(millions of dollars)



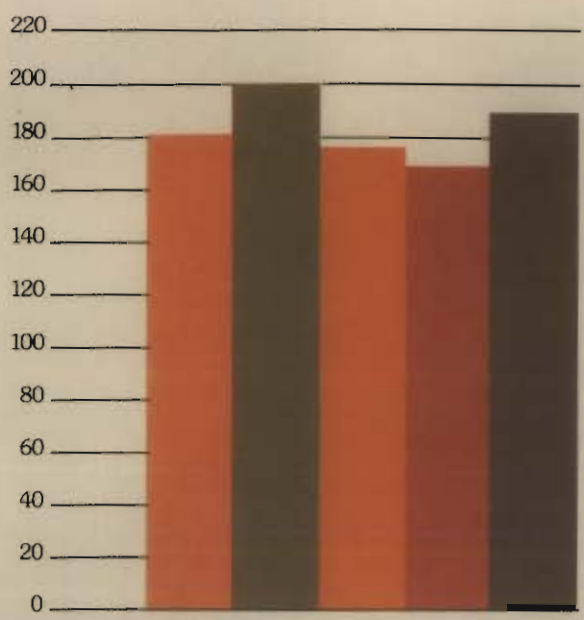
NET INCOME
(millions of dollars)



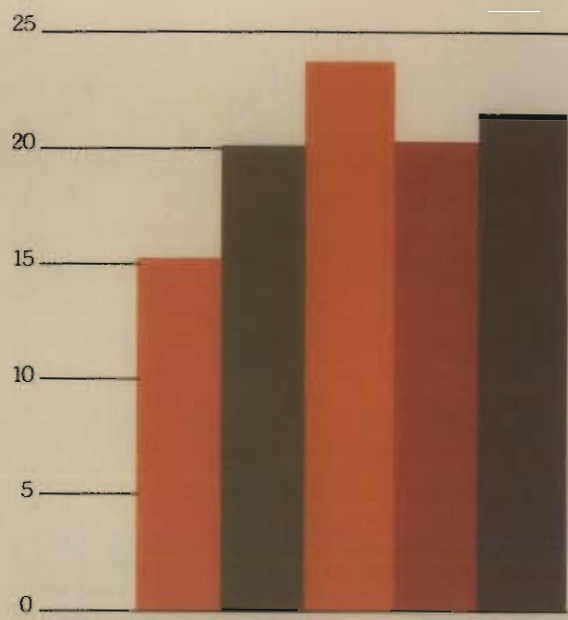
SHAREHOLDERS' EQUITY
(millions of dollars)



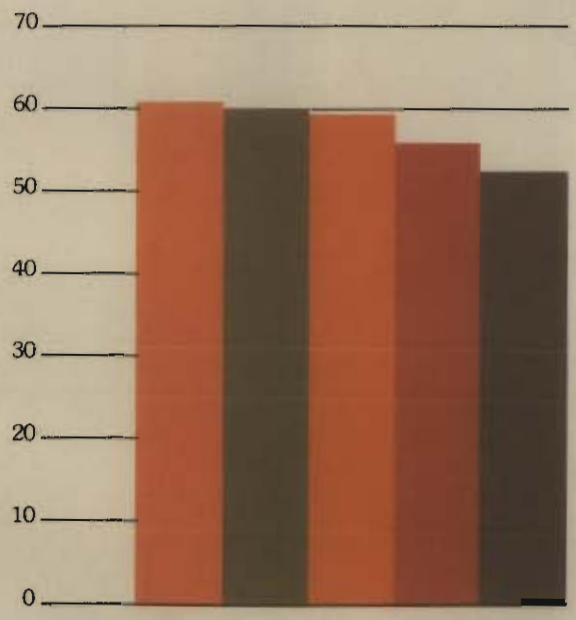
TOTAL ASSETS
(millions of dollars)



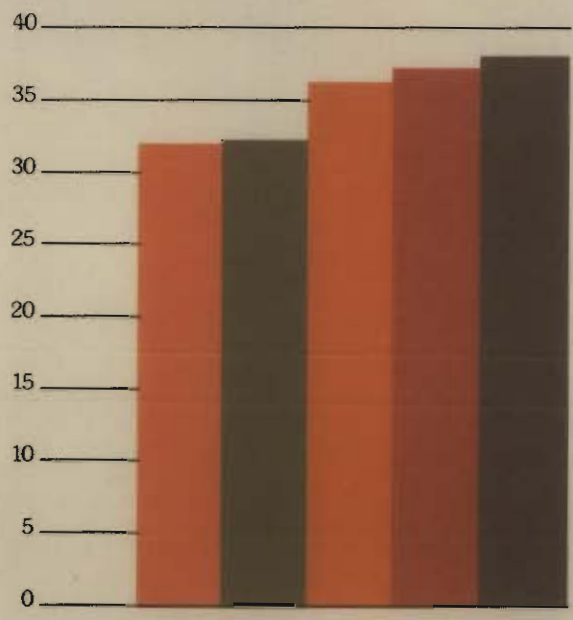
WORKING CAPITAL
(millions of dollars)



CAPITAL INVESTMENT
(millions of dollars)



TOTAL DEBT
(millions of dollars)



PER CAPITA SALES
(dollars)

1981 1982 1983 1984 1985

Consolidated Statement of Income and Retained Earnings

Nabisco Brands Ltd
for the year ended
December 31, 1985
(in thousands of dollars)

	1985	1984
NET SALES	\$957,862	\$938,487
Cost of products sold	698,764	689,998
GROSS MARGIN	\$259,098	\$248,489
Selling, administrative and other expenses, including interest on long-term debt of \$6,035 in 1985 and \$6,458 in 1984	178,823	172,999
INCOME BEFORE TAXES AND EXTRAORDINARY ITEMS	\$ 80,275	\$ 75,490
Provision for taxes on income (Note 11)	33,810	31,815
INCOME BEFORE EXTRAORDINARY ITEMS	\$ 46,465	\$ 43,675
Extraordinary items (Note 9)	(880)	885
NET INCOME	\$ 45,585	\$ 44,560
RETAINED EARNINGS, beginning of year	271,630	253,070
	\$317,215	\$297,630
Dividends declared	16,000	26,000
RETAINED EARNINGS, end of year	\$301,215	\$271,630
Earnings per share		
Income before extraordinary items	\$ 2.32	\$ 2.18
Net Income	\$ 2.28	\$ 2.23

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Nabisco Brands Ltd as at December 31, 1985 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand

Chartered Accountants
Toronto, Canada
January 21, 1986

Consolidated Statement of Changes in Financial Position

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Nabisco Brands Ltd
for the year ended
December 31, 1985
(in thousands of dollars)

	1985	1984
OPERATING ACTIVITIES		
Income before extraordinary items	\$ 46,465	\$ 43,675
Depreciation and amortization	15,033	17,806
Deferred income taxes	(765)	1,557
Operating working capital	5,997	(11,186)
	<u>66,730</u>	<u>51,852</u>
Dividends paid	(16,000)	(22,000)
Net funds from operating activities	<u>\$ 50,730</u>	<u>\$ 29,852</u>
FINANCING ACTIVITIES		
Debt repayment	\$ 3,470	\$ 3,377
Reduction of stated capital	—	20,000
Funds used in financing activities	<u>\$ 3,470</u>	<u>\$ 23,377</u>
Total funds available for investment activities	<u>\$ 47,260</u>	<u>\$ 6,475</u>
INVESTMENT ACTIVITIES		
Fixed assets		
Additions	\$ 21,894	\$ 21,146
Proceeds from disposals	(4,911)	(937)
	<u>16,983</u>	<u>20,209</u>
Acquisition (Note 2)	2,863	—
Other	112	(233)
Net funds used for investment activities	<u>\$ 19,958</u>	<u>\$ 19,976</u>
EXTRAORDINARY ITEMS (Note 9)	<u>\$ 880</u>	<u>\$ (885)</u>
NET GENERATION (USE) OF FUNDS	<u>\$ 26,422</u>	<u>\$ (12,616)</u>
FUNDS (cash and short-term investments)		
— beginning of year	25,959	38,575
— end of year	<u>\$ 52,381</u>	<u>\$ 25,959</u>
CHANGES IN OPERATING WORKING CAPITAL		
Accounts receivable	\$ (7,265)	\$ (6,415)
Inventories and prepaid expenses	6,813	(14,982)
Accounts payable and accrued expenses	740	8,335
Due from/to parent and affiliates	(4,248)	15,034
Income and other taxes payable	9,957	(13,158)
Increase (Decrease) for the year	<u>\$ 5,997</u>	<u>\$ (11,186)</u>

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Consolidated Balance Sheet

Nabisco Brands Ltd
December 31, 1985
(in thousands of dollars)

ASSETS	1985	1984
CURRENT ASSETS:		
Cash and short-term investments	\$ 52,381	\$ 25,959
Accounts receivable	89,423	82,158
Income taxes recoverable	—	4,592
Due from parent	3,024	—
Inventories (Note 3)	162,137	168,720
Prepaid expenses	5,618	5,443
Total current assets	<u>\$312,583</u>	<u>\$286,872</u>
FIXED ASSETS (Note 4)	<u>\$157,701</u>	<u>\$154,359</u>
OTHER ASSETS:		
Goodwill and other intangibles	\$ 39,320	\$ 38,254
Other	3,686	3,574
	<u>\$ 43,006</u>	<u>\$ 41,828</u>
	<u>\$513,290</u>	<u>\$483,059</u>

Approved on behalf of the Board:

David A R. Leighson, Director

J. R. MacDonald, Director

LIABILITIES	1985	1984
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$106,773	\$106,033
Due to parent and affiliates	—	1,224
Income taxes payable	1,845	—
Other taxes payable	5,744	2,224
Dividends payable	4,000	4,000
Current maturities of long-term debt (Note 5)	3,494	3,462
Total current liabilities	<u>\$121,856</u>	<u>\$116,943</u>
LONG-TERM LIABILITIES (Note 5)	49,128	52,630
DEFERRED INCOME TAXES	34,680	35,445
	<u>\$205,664</u>	<u>\$205,018</u>
SHAREHOLDERS' EQUITY:		
Capital stock (Note 6)	\$ 6,411	\$ 6,411
Retained earnings	301,215	271,630
	<u>\$307,626</u>	<u>\$278,041</u>
	<u>\$513,290</u>	<u>\$483,059</u>

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Nabisco Brands Ltd
for the year ended
December 31, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a) The consolidated financial statements include the accounts of the company and all subsidiary companies and are prepared in accordance with generally accepted accounting principles as formalized by the recommendations of the Canadian Institute of Chartered Accountants.
- b) Short-term investments are carried at cost which approximates market value.
- c) Finished goods inventories and work in process are valued at the lower of cost and net realizable value. Raw materials and packaging supplies are valued at the lower of cost and replacement cost. Cost is determined principally on an average or first-in, first-out basis.
- d) Property, plant and equipment are recorded at cost. Assets under capital leases are recorded at the present value of future minimum rental payments. For financial reporting purposes, depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of ten to sixty years for buildings and two to forty years for machinery and equipment.
- e) Deferred income taxes are provided for all significant timing differences between accounting income and income for tax purposes, principally depreciation.
- f) Goodwill acquired after September, 1970 is being amortized over periods not to exceed forty years. Goodwill acquired prior to October, 1970 relating to regional pet food brands, is being amortized over a period of twenty years commencing in 1980. Other goodwill acquired prior to October, 1970 of \$19,351,000 is not being amortized.

2. ACQUISITION

On August 2, 1985, the Company acquired certain assets and business of Anthos Coffee Company Limited for cash consideration of \$2,863,000, consisting of \$1,900,000 for goodwill and \$963,000 for other assets.

3. INVENTORIES

	(in thousands of dollars)	
	1985	1984
Finished goods	\$ 67,063	\$ 66,841
Work in process (principally maturing spirits)	36,963	44,489
Raw materials and packaging supplies	58,111	57,390
	<u>\$162,137</u>	<u>\$168,720</u>

4. FIXED ASSETS

	(in thousands of dollars)	
	1985	1984
Land	\$ 4,953	\$ 5,494
Buildings	76,928	81,011
Machinery and equipment	202,106	189,778
Assets under capital leases	5,705	5,688
	<u>\$289,692</u>	<u>\$281,971</u>
Less—Accumulated depreciation	131,991	127,612
	<u>\$157,701</u>	<u>\$154,359</u>

5. LONG-TERM LIABILITIES

	(in thousands of dollars)	
	1985	1984
14% Sinking fund debentures due March 15, 2000, guaranteed by Nabisco Brands, Inc. with sinking fund payments of \$1,725,000 annually	\$ 26,550	\$ 28,275
9.75% Sinking fund debentures due December 15, 1997, guaranteed by Nabisco Brands, Inc. with sinking fund payments of \$1,000,000 annually	20,000	21,000
7.5% Secured debentures due 1987	285	428
Other, including mortgages on certain properties carrying interest rates ranging from 7%-11 ³ / ₄ %	2,207	2,487
Capital lease obligations	3,580	3,902
	<u>\$ 52,622</u>	<u>\$ 56,092</u>
Less—current maturities	3,494	3,462
	<u>\$ 49,128</u>	<u>\$ 52,630</u>

Future minimum lease payments under capital leases are as follows:

	(in thousands of dollars)
1986	\$ 681
1987	609
1988	609
1989	592
1990	500
1991-1995	2,293
	<u>\$ 5,284</u>
Less interest @ 9.8%	1,704
	<u>\$ 3,580</u>

6. CAPITAL STOCK

	(in thousands of dollars)	
	1985	1984
a) Class A Special shares without nominal or par value.		
Authorized—		
Unlimited number of voting Class A shares, convertible to common on a share for share basis; but otherwise participating equally with the common shares;		
Issued and fully paid: 4,000,000 shares	\$10	\$10
b) Common shares without nominal or par value.		
Authorized—		
Unlimited number		
Issued and fully paid: 16,000,000 shares	6,401	6,401
	<u>\$ 6,411</u>	<u>\$ 6,411</u>

7. TRANSACTIONS WITH RELATED PARTIES

Transactions with the parent and affiliated companies are summarized below:

	(in thousands of dollars)	
	1985	1984
Sales	\$ 12,660	\$ 4,800
Purchases	6,169	6,397
Management and other charges, net	824	1,515
Interest income, net	—	1,266
Royalties paid	3,018	2,661

8. PENSION PLANS

The company and its subsidiaries contribute to several pension plans covering substantially all eligible employees. The plans are, for the most part, contributory, defined benefit plans. The total pension expense in 1985 was \$6,898,000 (\$7,155,000 in 1984), which included amortization of unfunded actuarial liabilities which are being funded and expensed for the most part over periods of 15 years or less.

The actuarial present value of accumulated plan benefits as of December 31, 1984, the date of the most recent valuation, and net assets available for benefits are summarized below.

	(in thousands of dollars)
	1984
Actuarial present value of accumulated plan benefits	
Vested	\$ 81,061
Non Vested	8,897
Total	<u>\$ 89,958</u>
Net assets available for benefits (Market Value)	<u>\$118,413</u>

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The apparent surplus above is required to meet the company's funding policy with respect to its pension plans which recognizes future benefit increases expected to result from future increases in members' salaries; whereas the actuarial present value of accumulated plan benefits shown above represents the pension benefits earned by employees as of December 31, 1984 based on eligible service to date and current salaries. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.5%.

9. EXTRAORDINARY ITEMS

The world-wide key employee performance share plan of Nabisco Brands, Inc., the parent company, provided long-term incentive awards to senior executives based on market performance of Nabisco Brands, Inc. shares. As provided in the Merger Agreement dated June 1, 1985, between R. J. Reynolds Industries, Inc. and Nabisco Brands, Inc. the plan was concluded and provision was made for early distribution, on a prorated basis to the end of 1985, of the incentive award for the three uncompleted performance periods. The company expensed \$880,000, net of income taxes of \$920,000, related to the early distribution.

In 1984 the Company sold its Canadian Chase & Sanborn trademarks for a gain of \$7,400,000 net of income taxes of \$2,600,000. Offsetting this gain were expenses of \$6,515,000 net of income taxes of \$6,230,000 associated with the closure of manufacturing plant facilities.

10. OPERATING LEASE COMMITMENTS

The future minimum lease payments are as follows:	(in thousands of dollars)
1986	\$ 2,964
1987	2,826
1988	1,156
1989	878
1990	807
1991 and thereafter	3,485
	<u>\$ 12,116</u>

11. INCOME TAXES

A reconciliation of the statutory income tax rate to the company's effective income tax rate is as follows:

	1985	1984
Statutory rate in Canada (federal and provincial)	49.36%	49.15%
Reduction applicable to manufacturing and processing profits	(4.18)	(4.18)
Reduction resulting from inventory allowance	(2.73)	(2.72)
Investment tax credit	-	(1.04)
Other, net	(0.33)	0.93
	<u>42.12%</u>	<u>42.14%</u>

12. BUSINESS SEGMENTS

The company is engaged in two main lines of business; Consumer Products and Food Ingredients Products. Consumer Products includes packaged foods, confectionery products, pet foods and wines and spirits products which are manufactured and/or sold for the most part under advertised brand names through grocery stores, supermarkets, confectionery stores and Provincial Liquor Board outlets. Food Ingredients Products includes mainly coffee and oil-based products sold to hotels and restaurants, and flour, yeast and other baking ingredients sold to bakeries. The following schedule presents information about the company's business segments:

	(in thousands of dollars)	
	1985	1984
Segment sales:		
Consumer Products	\$798,036	\$793,029
Food Ingredients Products	159,826	145,458
	<u>\$957,862</u>	<u>\$938,487</u>
Segment operating profit:		
Consumer Products	\$ 85,149	\$ 77,185
Food Ingredients Products	15,997	13,201
	<u>\$101,146</u>	<u>\$ 90,386</u>
General corporate expense, net	\$ 16,548	\$ 12,018
Interest expense, net	4,323	2,878
Income taxes	33,810	31,815
	<u>\$ 54,681</u>	<u>\$ 46,711</u>
Income before extraordinary items	\$ 46,465	\$ 43,675
Extraordinary items	(880)	885
Net Income	<u>\$ 45,585</u>	<u>\$ 44,560</u>
Identifiable assets:		
Consumer Products	\$424,380	\$410,002
Food Ingredients Products	88,910	73,057
	<u>\$513,290</u>	<u>\$483,059</u>
Capital expenditures:		
Consumer Products	\$ 16,990	\$ 17,844
Food Ingredients Products	4,904	3,302
Depreciation and amortization:		
Consumer Products	12,218	14,540
Food Ingredients Products	2,815	3,266



John R. MacDonald
Toronto, Ontario
Chairman of the Board and
Chief Executive Officer
Nabisco Brands Ltd



Fred Corrado
Toronto, Ontario
President and
Chief Operating Officer
Nabisco Brands Ltd



Martin F.C. Emmett
New York, New York
Chairman
Burns Fry and Timmins Inc.
Vice Chairman
Nabisco Brands Ltd



David S.R. Leighton
Toronto, Ontario
Vice Chairman
Nabisco Brands Ltd



Robert J. Carbonell
East Hanover, New Jersey
Vice Chairman
Nabisco Brands, Inc.



Paul Desmarais, Jr.
Montreal, Quebec
Vice President
Power Corporation
of Canada



Gordon M. Farquharson,
Q.C.
Toronto, Ontario
Senior Partner
Lang, Michener, Cranston,
Farquharson & Wright



James D. Fleck
Toronto, Ontario
Chairman
Fleck Manufacturing Inc.



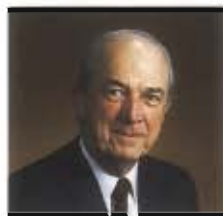
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East Hanover, New Jersey
Vice Chairman
Nabisco Brands, Inc.



Jeannine Guillevin-Wood
Montreal, Quebec
Chairman and
Chief Executive Officer
Guillevin International Inc.



Matthew S. Hannon, Q.C.
Montreal, Quebec
Senior Partner
Ogilvy, Renault



George C. Hitchman
Toronto, Ontario
Honorary Director
Bank of Nova Scotia



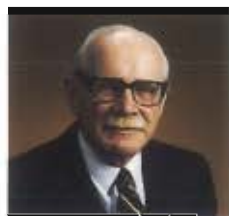
F. Ross Johnson
Winston-Salem,
North Carolina
President and
Chief Operating Officer
R.J. Reynolds Industries, Inc.



John Loudon
London, England
Managing Director
N.M. Rothschild & Sons
Ltd.



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Toronto, Ontario
Chairman
Black & McDonald Limited



W. Earle McLaughlin
Montreal, Quebec
Former Chairman
of the Board
Royal Bank of Canada



**The Honourable
Gerald A. Regan P.C., Q.C.**
Ottawa, Ontario
President
Hawthorne Developmental
Services



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East Hanover, New Jersey
Chairman
Nabisco Brands, Inc.



C. Richard Sharpe
Toronto, Ontario
Chairman and
Chief Executive Officer
Sears Canada Inc.



Kenneth D. Taylor
New York, New York
Senior Vice President,
Government Affairs
Nabisco Brands, Inc.

DIRECTORS EMERITUS

Frank M. Covert, Q.C.
Joel S. Mitchell
Gaétan C. Morrisette
Ben Wosk, C.M.

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George C. Hitchman, *Chairman*
Matthew S. Hannon, Q.C., *Secretary*
Paul Desmarais, Jr.
Gordon M. Farquharson, Q.C.
James D. Fleck
David S.R. Leighton

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H. John McDonald, *Secretary*
Jeannine Guillevin-Wood
John Loudon
The Honourable Gerald A. Regan,
P.C., Q.C.
Kenneth D. Taylor

EXECUTIVE COMMITTEE

John R. MacDonald, *Chairman*
Fred Corrado
Martin F.C. Emmett
George C. Hitchman
David S.R. Leighton
H. John McDonald
W. Earle McLaughlin
C. Richard Sharpe

NOVA SCOTIA

Amherst	<i>Chewing Gum</i>
Bridgetown	<i>Distilled Spirits</i>
Dartmouth	<i>Confectionery</i>

QUEBEC

Joliette	<i>Biscuits</i>
LaSalle	<i>Yeast</i>
Montreal	<i>Cookies, Crackers, Snacks</i>
Sherbrooke	<i>Confectionery</i>

ONTARIO

Brampton	<i>Pet Foods</i>
Etobicoke	<i>Distilled Spirits</i>
Hamilton	<i>Confectionery</i>
Mississauga	<i>Pet Foods</i>
Mississauga	<i>Flour</i>
Niagara Falls	<i>Cereals</i>
Scarborough	<i>Margarine</i>
Scarborough	<i>Cookies</i>
Toronto	<i>Coffee</i>
Toronto	<i>Cookies, Crackers, Snacks</i>
Toronto	<i>Biscuits</i>
Toronto	<i>Nuts, Snacks</i>

MANITOBA

St. Boniface	<i>Pet Foods</i>
Winnipeg	<i>Roasted Coffee</i>
Winnipeg	<i>Cereals</i>

SASKATCHEWAN

Weyburn	<i>Distilled Spirits</i>
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ALBERTA

Calgary	<i>Yeast, Margarine</i>
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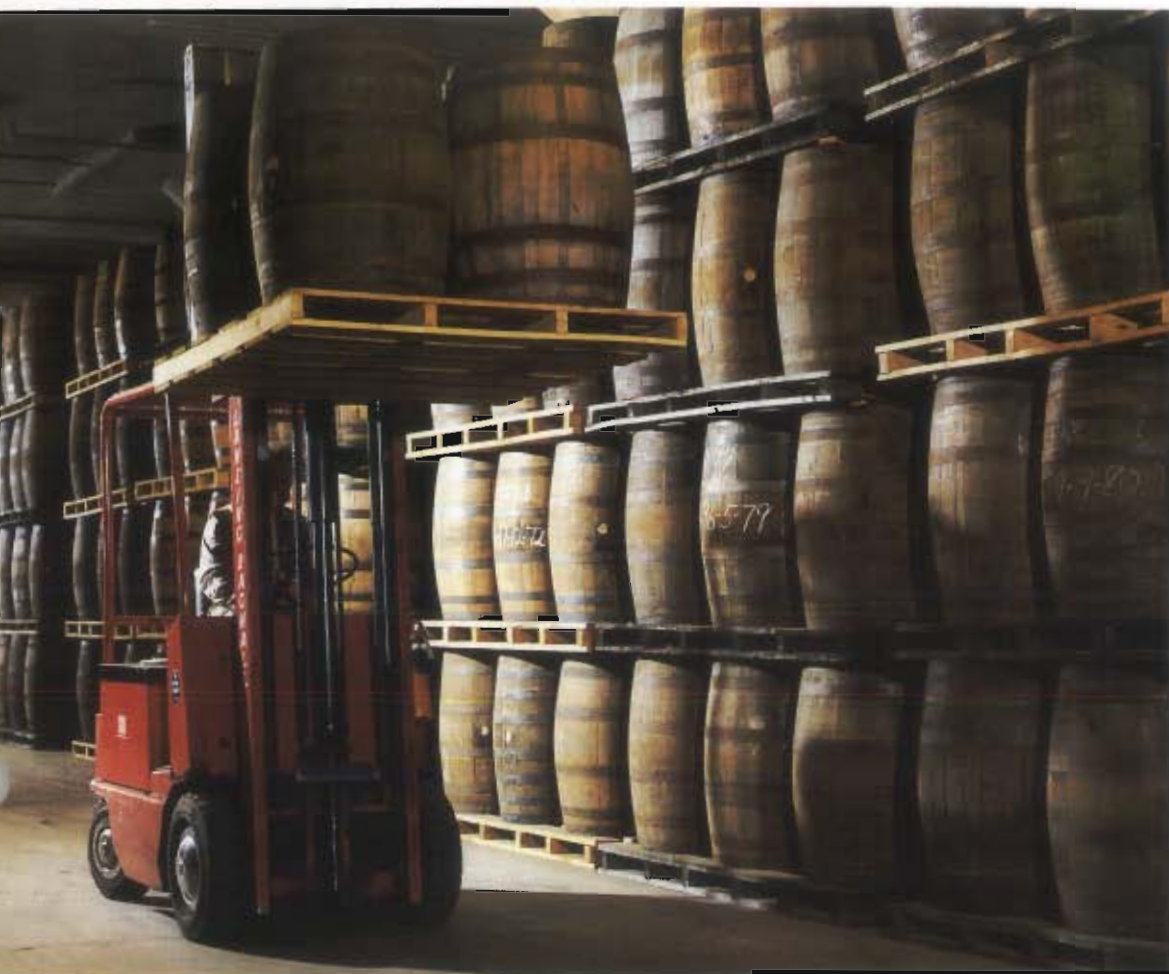
BRITISH COLUMBIA

Kelowna	<i>Wines & Distilled Spirits</i>
Vancouver	<i>Coffee</i>
Vancouver	<i>Pet Foods</i>
Vancouver	<i>Nuts, Snacks</i>

OREGON

Tualatin	<i>Pet Foods</i>
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BISCUITS

Christie Cookies
Apple Newtons
Arrowroot
Barnum's Animal Crackers
Chewy Chips Ahoy!
Chips Ahoy!
Coffee Breaks
Date Newtons
Favourites
Fig Newtons
Fudge-o
Funilla
Hey Days
Hoo-Rays
Jelly Shortcake
Lemon Puff
Midget Snaps
Miniatures
Montclair Chocolate Grahams
Mr. Christie's Crisp 'N Chewy
Neapolitan Wafers
Oatmeal Fudge
Oreo
Oreo Double Stuf
Oreo Mint Creme
Pantry
Piknik Assortment
Pirate
Social Tea
Sultana
Symphonie Shortbread
Tea Treats
Vanilla Wafers

Christie Crackers
Bacon Dippers
Better Cheddars
Buffet Rye
Calais
Canadian Harvest
Cheese Bits
Cheese & Green Onion
Cheese Nips
Cheese Ritz
Cheese Tid Bits
Escort
French Onion Thins
Ground Wheat Thins
Holland Rusk
Honey Maid Graham Wafers
Honey Maid Chocolate
Graham Crumbs
Honey Maid Graham Crumbs
Hovis
Meal Mates
Milk Lunch
Onion Crisp
Old Fashioned
Old Fashion Hi Fibre
Premium Plus
Ritz
Sociables
Sour Cream & Chive
Swiss Cheese
Triangle Thins
Triscuit
Vegetable Thins
Wheatworth
Wheat Thins

Christie Snacks & Cones
Bits & Bites
Cheddar Flings
Cheddees
Mini Chips
Mister Salty Pretzels
Cadet & Comet
Ice Cream Cones

Dad's Cookies
All Butter Shortbread
Apple 'N Oatmeal
Big Cookie
Celonos
Chips in Chocolate
Chocolate Chip
Chunky Chocolate Chip
Chunky Fudge
Coated Variety
Coconut
Cremes of Crop
Date 'N Oatmeal
Family Pack
Goodie Rings
Mallows
Oatmeal
Oatmeal Chocolate Chip
Original Oatmeal
Raspberry 'N Oatmeal
Variety Pack

David Cookies
Assorted Mallows
Assorted Wafers
Chunks O' Chocolate
Coco ou Lait
Coco Sandwich
Fig Bars
Ginger Snaps
Jelly Mallows
Maple Leaf
Petit Beurre
Petit Graham
Princess
Rainbow
Social Tea
Strawberry Tart
Super Graham
Vanilla Wafers

Hamois Products
Gateaux Royal
Papineau
Winsor

Peek Freans Biscuits
Arrowroot
Assorted Creme
Bourbon Creme
Celebration
Chocolate Chip
Dark Chocolate Digestive
Digestive
Family Assortment
Family Digestive
Fruit Creme
Fruit Shortcake
Ginger Crisp
Ginger Crunch
Horne Assorted
Milk Chocolate Digestive
Nice
P. F. Assorted
Shortcake

Non-Sweet
Cream Crackers
Biscuits For Cheese
Water Crackers

CONFECTIONERY

Lowney Candy Bars
Caravan
Cherry Blossom
Eat-More
Glosette Peanuts
Glosette Raisins
Junior Mints
Nut Milk
Oh Henry!
Peanut Butter Cups

Hard Roll Candy
Beech Nut Cough Drops
Breath Savers
Life Savers
Life Savers Lollipops
Bubble Yum
Care*Free
Splitz

Chewy Candy
Bonkers!

Nuts
Beaver
Pine Tree
Planters
Planters Unsalted
Planters Honey Roast

Moirs Boxed Chocolates
All Nuts
Almond Bark/Chocolate Bark
Almondillos
Cherries
Chocolate Covered Hazelnuts/
Almonds
Half & Half
Moirs Collection
Ovation
Pot of Gold
Selection
Valentine Hearts

Other Confectionery
Angelus Marshmallows
Bossett's Liconce
Bridge Mixture
Campfire Marshmallows
Chippoppitty Snacks
Cracker Jack
Easter Eggs
Planters Cannister Snacks
Tradition

FOODS

Baking Aids
Chipsits Baking Chips
Chipsits Baking Squares
Chipsits Cocoa Powder
Fleischmann's Yeast
Magic Baking Powder

Desserts
Royal Instant Puddings
Royal Jelly Powders
Royal No-Bake Pie Mixes

Margarines
Blue Bonnet
Fleischmann's

Nabisco Cereals
Honey Bran Crunchies
Honey Bran Crunchies & Fruit
100% Bran
Cream of Wheat
Golden Honey
Team
Rice Flakes
Shredded Wheat
Shreddies
Shreddies & Raisins
Spoon Size Shredded Wheat

Other
Egg Beaters Egg Substitute
Planters Peanut Oil

Pet Foods
Alpo
Blue Mountain
Dr. Ballard's
Husky
Milk-Bone
Miss Mew
Perky
Romar
Tops

Dog Biscuits
Butcher Bones
Flavor Snacks
Milk-Bone

INDUSTRIAL PRODUCTS
Fleischmann's Baker's Yeast
Reid Flour

Food Service Coffees
Anthos
Becharas
Chase & Sanborn
Club
Dickson's
Eze Brew
Mellocup
Melrose
Mojabo

WINES & SPIRITS

McGuinness Distillers
Canadian Whisky
Acadian "400"
CN Tower
Captain's Table
Gold Tassel
Old Canada
Silk Tassel
Silk Tassel Deluxe

Brandy
D'Eaubonne

Gin
Booth's High & Dry
McGuinness Marble Arch

Rum
Bluenose
Don "Q"
McGuinness
7 Seas

Vodka
Polar Ice
Red Tassel
Silhouette

Liqueurs
Amarello
Bahio Orange Schnapps
Café de Paris
Café Noir
Castaway
Kemper's Bavarian Cream
Kemper's Peppermint Schnapps
Klingstone's Peach Schnapps
McGuinness Liqueurs
Olde Nutcracker
Orange & Brandy
Ovation
Yukon Jack

Beer
Castlemaine
MacEwan's
Newcastle Brown Ale

Calona Wines
Chillers Premium Wine Cooler
Fontana Bianco
La Scala Spumante
Monashee Estate White
Port & Sherry
Royal
San Pietro
Schloss Laderheim
Schloss Laderheim Light
Sommet Blanc
Sommet Rouge
Spring Hill Vineyards
Tiffany
Winemaster's Selection

Imported Wines & Spirits
Alvar Fino Montilla Wine
Blue Nun Wines
Cockspur Rum
Cuervo Tequila
Giacconi Wines
Fonseca Wines
Frangelico Liqueur
Glenmorangie Single Highland Malt
Scotch Whisky
Laurent Pernier Champagne
Maisonnieuve Wines
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